Transnationals

50 Largest Transnationals, p. 7

INVESTMENT FLOWS $180 BILLION IN 1991

Inflows into Developed Countries Drop, Expand in Developing Countries

For the first time in ten years, global foreign direct investment flows dropped in 1991. Annual outflows shrank to $180 billion from a total of $234 billion in 1990. Early estimates for 1992 show a further overall decline, although United States outflows seem likely to double.

Despite the 1991 drop, however, total outflows continued to grow faster than global trade or output, maintaining their growth trajectory of the 1980s. The world-wide stock of foreign direct investment is now some $2.1 trillion. The recent slow-down seems to stem from temporary economic fluctuations rather than to herald a longer-term decline in global investment flows.

These trends, and those highlighted in the next few pages, are studied in detail in TCMD's *World Investment Report 1993*. To be published this summer, it examines how transnational companies, in seeking to be internationally competitive, are laying the basis for a more integrated global production system.

International Economic Slow-Down Responsible

Recessionary conditions in the United States, Japan and the European Community were the primary cause of the 1991 drop. Those countries are the world's most sizeable foreign investors, as well as its biggest hosts, and control among them three quarters of global investment. An $18 billion fall

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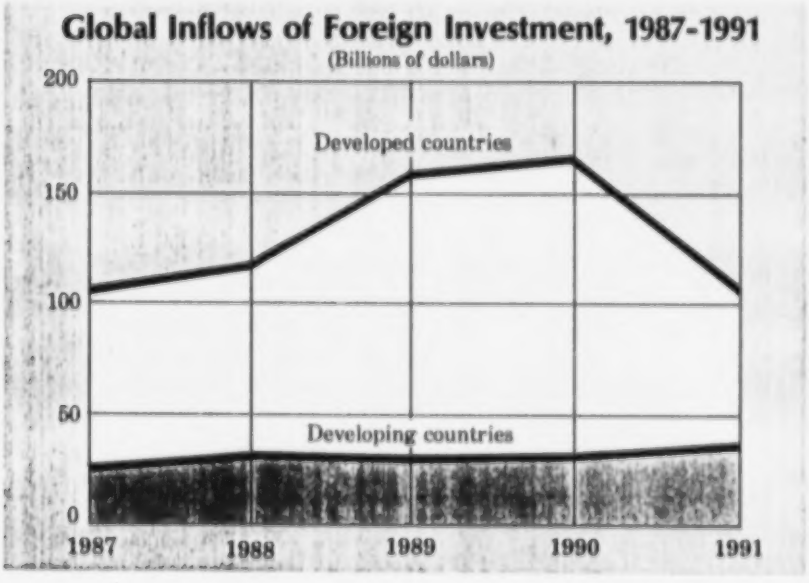

A Global Qualification Proposed in Accounting

Meeting in New York in March, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) called for a global qualification for accountants as the first step in a world-wide process of improved accounting education.

A global qualification, the Group felt, while ensuring common educational standards, would remedy existing disparities in accounting training between developed and developing countries. It could also help to widen the responsibility of auditors and accountants in detecting fraud at a time of frequent financial failure.

Global Exam

The Group proposed that a new designation be established—that of United Nations registered accountant and, on a higher level, that of United Nations registered auditor.

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Investment Flows

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in Japanese outflows, mostly to the United States, was the single largest component.

Changing corporate strategies are also an important reason for changes in foreign direct investment flows. In the last decade, firms boosted investments in Europe as they prepared for the Single Market. By 1991, with strategic positions secured and existing investments more efficient, new equity outlays declined. For Japan, a greater inward orientation by Japanese transnationals contributed to diminishing outflows.

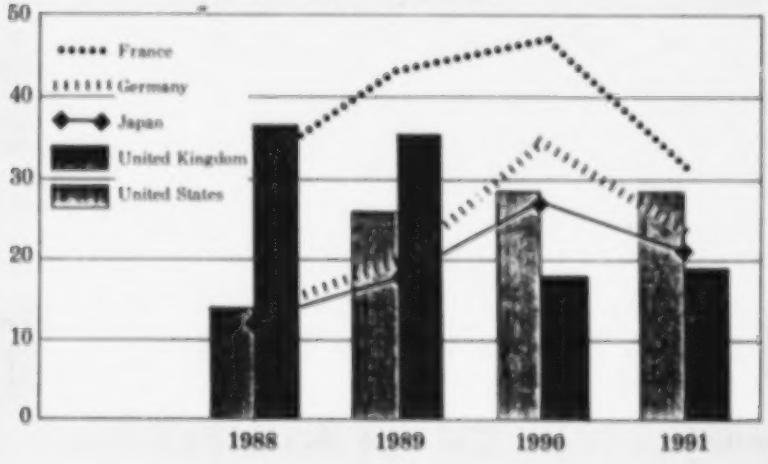
Developing Countries Regain Investment Share

With inflows that grew by more than 20 per cent, 1991 augured well for developing countries. They regained their 25 per cent share of global inflows of the early 1980s, which had dropped to 19 per cent by 1990.

The experience of developing countries in 1991, some scholars say, allays fears that European unification will divert investment from developing countries. Investments in those countries, they argue, tend to be industry- or natural-resource-specific or to target large local markets and low labour costs. Rather than drawing capital away from developing countries, European unification—by creating strong pan-European firms— will most likely boost it.

Major Home Country Outflows, 1987-1991

(Billions of dollars)



But, consonant with earlier trends, investments continued to concentrate in ten developing economies; the 42 least-developed countries as a group attracted only $148 million.

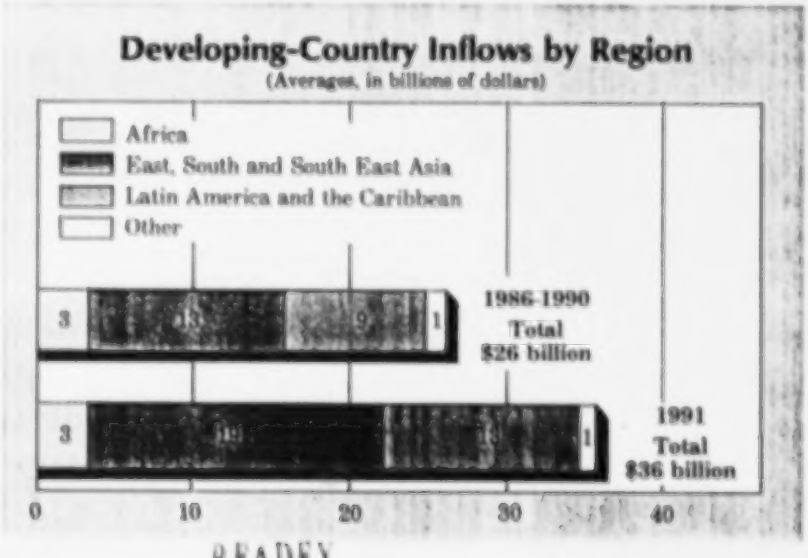
Mexico received $4.7 billion in 1991, becoming the largest developing-country host. China followed, receiving $4.3 billion and approving a further $12 billion in proposed investments. In both countries, large domestic markets, rapid economic growth, low labour costs and the recent liberalization of the services sector were prime attractions. For Mexico, the proposed North American Free Trade Agreement, and for China, the United States' renewal of its "most-favoured nation" status have further boosted their investment allure.

Rather than drawing investment away from developing countries, European unification might boost it through stronger pan-European firms.

Singapore, Hong Kong, Taiwan Province of China and the Republic of Korea were also foremost among developing-country recipients. Indonesia, Malaysia and Thailand began to receive significant export-oriented, outsourcing investments, mainly from Japan and from the

Developing-Country Inflows by Region

(Averages, in billions of dollars)



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Asian newly industrializing countries. Investments to India jumped from $360 million to $1 billion, responding to liberalization moves. Similarly, Viet Nam and Cambodia, having recently opened to foreign investors and undertaken market reform, attracted much new investment in the petroleum sector.

Three quarters of Africa's $2.8 billion inflow went to oil-exporting countries. But investments to Morocco quadrupled, reflecting economic growth, liberalization moves and duty-free access to the European Community market.

In Latin America, economic revival caused investments to pick up, from $10 billion in 1990 to $13 billion in 1991. Mexico and Brazil received investments primarily in manufacturing; Chile in forestry, fishing and mining; Argentina and

In Latin America, privatization has replaced debt-equity swaps as the leading instrument of foreign direct investment.

Venezuela in telecommunications and air transport. Most inflows were in the form of acquisitions through governmental privatization programmes. In an important 1990s shift, privatization has replaced debt-equity swaps as the leading instrument of foreign direct investment. Many firms from the Republic of Korea and Taiwan Province of China have invested in Central America to avail themselves of export quotas into the United States granted by the Caribbean Basin Initiative.

As regards outflows, developing countries account for 3 per cent of the world total, with investments in 1991 growing twice as fast as those

(Continued on page 6)

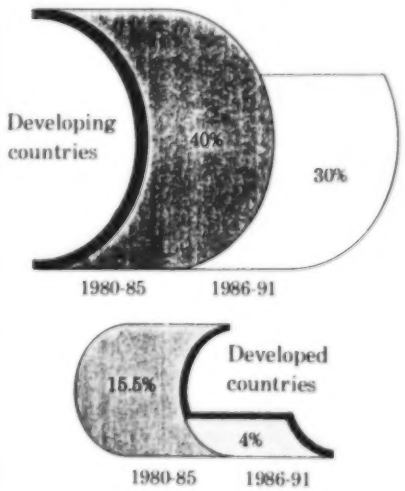
Investment's Changing Make-Up

The slowing of foreign direct investment in the early 1990s has somewhat altered its composition. New equity capital and intercompany loans now eclipse reinvested earnings as the financing source for foreign operations. Cross-border mergers and acquisitions, used extensively by foreign investors during the 1980s, have tapered off.

Reinvested earnings made up 60 per cent of all investment outflows from developed countries in the

The Decreasing Use of Reinvested Earnings

(Percentage share of foreign direct investment inflows)



early 1980s. By 1991, the ratio had dropped to 39 per cent. Recession and declining profits in the major host countries depleted revenues for reinvestment. As a result, affiliates have often repatriated earnings to help parent firms alleviate their diminishing returns.

Local Versus Foreign Sources of Capital

Local earnings have been a much larger component of foreign direct investment in developing countries than in developed ones, accounting for about half of the annual inflows over the 1980s. In other words, foreign firms have financed their investments in developing countries by drawing primarily on the host-country pool of capital. It may be that rates of return have been

United Kingdom and United States firms use reinvested earnings more than Japanese, German and French firms.

higher there than in the recession-hit Western markets, or that limits on profit repatriation have forced affiliates to put earnings back into the host economy.

As developing countries have eased profit-repatriation limits in the last few years, the share of reinvested earnings in total investment inflows has dropped.

In contrast, investments in developed countries have been financed overwhelmingly from funds mobilized abroad. Reinvested earnings made up less than 10 per cent of inflows into the eleven countries of the Organisation for Economic Co-operation and Development in the 1980s. In 1991, due to falling profits, the share of reinvested earnings became negative, that is to say, companies on balance repatriated profits by divesting themselves of their holdings in foreign operations.

United Kingdom and United States firms use reinvested earnings far more than firms from Japan, Germany and France. Being older investors, they have a larger stock of investments from which to plough back revenues. Newer investors, on the other hand, must raise new money in making investments abroad. ■

Agreements Between Countries Might Affect Investors

The 1980s witnessed an unprecedented amount of international declarations and agreements, both regional and global, each addressing specific or general environmental concerns. Whether binding or not, a new TCMD study observes, they will significantly affect the way transnational firms do business.

Emerging from those agreements are minimum global standards on production, resource use, distribution, consumption and disposal, which companies will need to take into account in conducting operations. Even if these standards are not legally enforceable, an increasingly environmentally-conscious public is pushing for their adoption. Energy, transportation, agriculture, mining, chemicals and hazardous substances are likely to be the particular targets of international regulation in the next few years. The study is entitled *International Environmental Law: Emerging Trends and Implications for Transnational Corporations.*

Energy, transportation, agriculture, mining, chemicals and hazardous substances are likely to be increasingly regulated.

New Policy Instruments

Besides international agreements, governments have devised new policy instruments to influence production and consumption. At their base, the study says, are concepts of environmental liability, such as the "polluter-pays" and the "preventive approach" principles. The "precautionary principle"—that even substances or processes suspected to damage the environment should be regulated—is also becoming popular.

Quality standards for products, processes and services are the most-used instrument. These are increasingly being applied in non-traditional areas like advertising, packaging, transport, and corporate environmental auditing, especially by the European Community.

International bans are also proliferating. For example, the 1987 Montreal Protocol prohibited the emission or use of certain ozone-destroying chemicals. The 1991 Protocol to the Antarctic Treaty bans all commercial activity in the Antarctic and secures the continent as a natural preserve. Other recent bans include those on the ivory trade, on commercial whaling, and on sewage disposal into the North Sea.

Governments are requiring firms to provide the public with detailed information on environmental impact and use of natural resources through environmental

Environmental Policy Instruments

- Quality standards
- Bans
- Environmental impact assessments
- Environmental reporting and public disclosure
- Product testing and clearance
- Taxes on resource use and emissions
- Environmentally adjusted prices
- Subsidies and public investments
- Liability

A 100 Per Cent Recycled Car

In Europe, increasingly stringent legislation on car recycling has found an innovative, proactive partner in Fiat. Through F.A.R.E., its highly effective car recycling programme, the Italian automobile company puts all car components to new uses.

F.A.R.E.'s strength is in the dynamic partnership with scrap-yard operators and recycled-component users.

The programme is founded on the "cascade" approach, whereby each part of the car becomes the source for progressively lower-level components requiring less density or strength. Plastic-based bumpers, for example, become dashboards and then floor-coverings. When the original material

auditing and reporting. Institutions are being set up to monitor firms and to strengthen the enforcement of environmental agreements.

Some countries would like national or regional environmental laws to have extra-territorial effect.

Many governments are seriously considering the application of pricing policies, emissions charges and taxes to shape environmental behaviour. Those are likely to become prevalent in the next few years. Already the European Community is working to develop a law facilitating the use of environmentally-related fiscal instruments. Environment subsidies and public investments are under similar review.

An Emerging International Environmental Law?

Most significantly, some countries would like national or regional environmental laws to have a legal effect in areas beyond their national jurisdiction—that is, to be extra-territorial. There have been cases, they argue, when industrial activity in one country creates environmental damage in another. The European Community has begun to address the issue of the cross-border effect of projects. That might presage a more effective system for the enforcement of global environmental law.

So far, there are but a handful of global instruments on the environment. They are limited to specific environmental threats and are legally diffuse, but most address

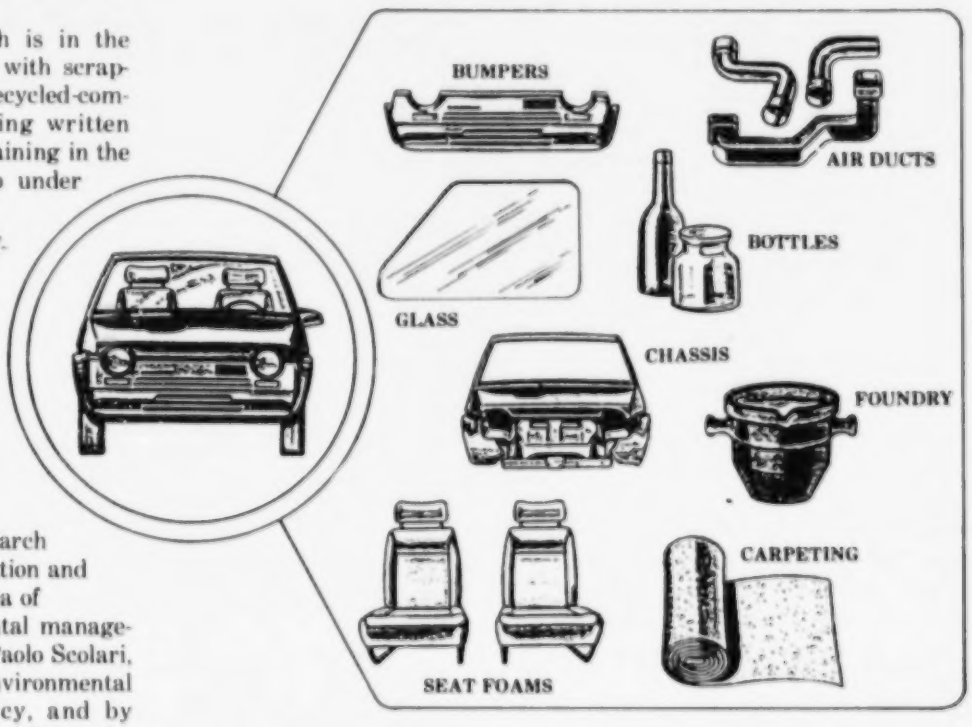
(Continued on page 6)

reaches the end of its recycled life, it is burned in special incinerators that harness its energy content for later use.

F.A.R.E.'s strength is in the dynamic partnership with scrapyard operators and recycled-component users, including written agreements on and training in the various uses of scrap under the cascade concept.

Now financially self-sufficient, the programme has been so successful that Fiat is moving to develop it further within Italy and then to expand it throughout Europe.

A Fiat delegation visited TCMD on 4 March 1993 to share information and experiences in the area of corporate environmental management. It was led by Paolo Scolari, Vice-President for Environmental and Industrial Policy, and by Manfred Gerstenfeld, Adviser for Environmental Strategies. ■



Agreements

(Continued from page 5)

the issue of transnational business. Key among them are the 1985 Convention for the Protection of the Ozone Layer, the 1989 Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, the 1992 Climate Change Convention and the 1992 Biodiversity Convention.

Regional environmental treaties are fairly widespread. Generally, they are binding and fairly detailed in their specifications. The European Community and the Organisation for Economic Co-operation and Development have the most highly developed network of environmental rules and standards pertaining to transnational corporations. Asia, in contrast, has virtually none.

Between sectors, regulation is also uneven. International standards on marine emissions are stringent and highly detailed, but those on atmospheric emissions are sketchy. Rules on industrial and chemical wastes focus on cross-border trade, glossing over issues like safe disposal and reduced generation of effluents. Strictures on hazardous-waste dumping are not binding. Only recently has plant and wildlife protection received serious attention from lawmakers.

But the recent jump in the number of international agreements manifests a growing political will to effect environmentally responsible behaviour. And however scattered, the existing host of declarations, agreements and policy instruments will be the basis for action. ■

International Environmental Law: Emerging Trends and Implications for Transnational Corporations, prepared by Philippe Sands. Available from United Nations Sales Section, New York or Geneva.

Investment Flows

(Continued from page 3)

from developed countries. Taiwan Province of China and the Republic of Korea have emerged in the last few years as net capital exporters, investing more abroad than they receive in inflows. South Africa also stepped up investments, mainly in the Southern African region.

Investments in Developed Countries Slow

Japan was by itself responsible for one third of the 1991 drop in outflows. While Japanese firms invested $48 billion abroad in 1990, much of it in the United States, their largest host, they invested just $30 billion in 1991. The profitability of foreign investments was low, due to recession, high start-up costs, and large interest payments on debt incurred to finance earlier projects.

Falling investment into the United States accounted for 50% of the global drop in inflows.

The European Community accounted for the other two thirds of the global drop in outflows. Investments from France shrank by $11 billion and those from Germany by $7 billion. There were also significant declines in investments from the Netherlands and from Sweden. And though United Kingdom investments expanded by $1 billion, they could not counter the steady five-year drop in outflows from that country.

As a result, investments into the United States fell dramatically in 1991, dropping to $11.5 billion—a quarter of what they had been in the preceding year, and the smallest inflow since 1983. This constituted half the global drop in inflows in 1991. In contrast, the United States had received an average of $36 billion a year over the 1980s.

Recession or not, in 1991, developed-country transnationals continued to make 97 per cent of all world-wide investments. ■

Accounting

(Continued from page 1)

Herbert Biener of the German Ministry of Justice suggested that the International Federation of Accountants (IFAC), the World Bank, the United Nations and other interested parties set up a working group to develop standards and training for this qualification. IFAC was also called on to develop a multilingual dictionary of accountancy.

Once the standards were ready, the Group suggested, the United Nations might supervise their implementation. To achieve the widest reach in the shortest time, the Organization could enter into agreements with government agencies and other accounting institutions and even franchise training and examinations.

Accountants in both the private and public sectors would most likely be interested in securing the United Nations qualification, participating experts said, because it would guarantee global acceptance of their work.

ISAR's call for a global qualification stems from its current efforts to improve accounting education, particularly in developing countries. Owing to disparities in the level and sophistication of training, accountants from developing countries and countries in transition are often not given the status accorded to accountants trained in the West. They tend to be bypassed, even in their own countries, in favour of accountants from international firms such as Price Waterhouse and Arthur Andersen. ■

The World's Transnationals

By the latest count, there are some 35,000 transnational companies world-wide, with some 170,000 affiliates around the globe. On average, every country thus hosts 1,000 affiliates but, as with world income, the distribution is highly uneven. Singapore, equal in size and population to a large Indian city, hosts almost 11,000 affiliates. India hosts about 1,000.

Parents Concentrated, Affiliates Spread

While nine tenths of parent transnational corporations are in developed countries, half of all affiliates are in developing and Central and Eastern European countries. Developing countries account for 2,700 parent firms.

Chemical, automobile, petroleum, and pharmaceutical firms are among the most gigantic transnationals.

France, Germany, Japan, the Netherlands and the United States are home to about half of the world's transnationals and together account for about two thirds of existing global investments. The United States is home to a third of the top one hundred transnationals.

Three fifths of all United States and Japanese transnationals are in manufacturing, but most of their affiliates are in services, as are those of German transnationals.

The Largest Firms

Chemical, automobile and pharmaceutical firms are among the world's largest transnationals, but oil companies top the list. With $106 billion in assets, Royal Dutch Shell, a British-Dutch collaboration, is estimated to have the largest foreign holdings. With Exxon, Mobil, Amoco, Texaco and Chevron of the United States, British Petroleum of the United Kingdom, and Elf Aquitaine and Total of France, it is among the twelve top petroleum firms that control among themselves over a quarter of a trillion dollars.

The top one hundred transnationals are estimated to have, on the average, 40 per cent of their assets in affiliates abroad. German, Italian and United States firms, located in large home markets, tend to keep more resources at home. Firms from small countries, like Belgium, the Netherlands and Switzerland, on the other hand, locate almost three quarters of their assets abroad. In terms of industries, petroleum, chemical and pharmaceutical firms are more transnationalized, whereas automotive firms generally maintain a greater share of their investments in large home markets.

Though developing countries are hosts to about half of all transnational affiliates, they account for just one fifth of the world investment stock. Investments there have generally been much smaller than in developed countries.

In conducting this study for its *World Investment Report 1993*, TCMD counted as transnationals only firms with an equity shareholding of at least 10 per cent in an affiliate abroad. Non-equity relationships, like subcontracting and strategic alliances, were not included. The study also includes a listing of the world's 100 largest transnationals ranked by foreign assets, with additional information on their home country assets, total and foreign sales, and total and foreign employment. ■

The Largest 50 Transnationals
(Ranked by Foreign Assets, 1990)

Rank	Corporation
1	Royal D[illegible] Shell
2	Ford
3	GM
4	Exxon
5	IBM
6	British Petroleum
7	Nestlé
8	Unilever
9	Asea Brown Boveri
10	Philips Electronics
11	Alcatel Alsthom
12	Mobil
13	Fiat
14	Siemens
15	Hanson
16	Volkswagen
17	Elf Aquitaine
18	Mitsubishi
19	GE
20	Mitsui
21	Matsushita Electric
22	News Corportion
23	Ferruzzi/Montedison
24	Bayer
25	Roche Holding
26	Toyota
27	Daimler-Benz
28	Pechiney
29	Philip Morris
30	Rhône-Poulenc
31	Du Pont
32	Hoechst
33	Michelin
34	Dow Chemical
35	Total
36	Thomson
37	Amoco
38	Saint-Gobain
39	ENI
40	Electrolux
41	Petrofina
42	Générale des Eaux
43	Hitachi
44	Chevron
45	Sandoz
46	C.Koh
47	Toshiba
48	Xerox
49	Stora
50	Texaco

NEW PUBLICATIONS

Link Between Intellectual Property Protection and Foreign Investment Unclear

Many countries have recently strengthened intellectual property protection regimes, in the belief that a strong system of intellectual property rights may help attract foreign direct investment, technology transfer and foreign research and development by transnational corporations.

The evidence, however, is inconclusive. A new TCMD study, *Intellectual Property Rights and Foreign Direct Investment*, finds that heightened intellectual property protection provides no clear impetus to investment inflows. The relationship varies by industry and depends on how production and distribution are structured, how research- and development-intensive the industry is, and what types of intellectual property rights are granted. Moreover, a host country's overall level of economic and technological development is a key determinant of investment.

While Argentina, Brazil and Turkey, for instance, have fairly lax protection standards in the pharmaceutical industry, they have nonetheless received substantial foreign investment in that sector. In contrast, Nigeria, despite dramatic changes in intellectual property legislation, has had little success in attracting investors.

Intellectual Property Rights and Their Scope

Types of Intellectual Property Rights	Main Fields
Patents	Chemicals, drugs, plastics, engines, turbines, electronics, industrial, control and scientific equipment
Trade marks	All industries
Copyright	Printing, entertainment (audio, video, motion pictures) software, broadcasting
Integrated circuits	Micro-electronics industry
Breeders' rights	Agriculture and food industry
Trade secrets	All industries
Industrial designs	Clothing, automobiles, electronics etc.

Complex Relationship

Intellectual property rights vary according to the type and form of protection they afford. While trade marks and patents cover various sectors and kinds of activity, other types relate only to specific industries.

So far, protection standards have had little impact in the semiconductor industry, where economic and technical factors appear to override other considerations. They have also had little effect on investments in distribution or assembly activities.

In contrast, investments in subcomponents, in finished products, and in research and development activities are considerably influenced by changes in intellectual property regimes. In the next few years, the pharmaceutical and software industries are also likely to be significantly affected. ■

Intellectual Property Rights and Foreign Direct Investment (ST/CTC/SER.A/24) will be available shortly from the United Nations Sales Section, New York or Geneva.

The Transnational Corporations and Management Division is one of eight Divisions in the United Nations Department of Economic and Social Development. Under the guidance of the Commission on Transnational Corporations, an intergovernmental subsidiary organ of the United Nations Economic and Social Council, TCMD seeks to further understanding of the nature of transnational corporations; to secure effective international agreements; and to strengthen the negotiating capacity of host countries, particularly the developing countries.

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Editors: Khalil Hamdani and Premila Nazareth. Assistant Editor: Louise Rankin.

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Transnational Corporations and Management Division
2 United Nations Plaza
New York, NY 10017, USA